

THE LINGNAN INSTITUTE OF BUSINESS ADMINISTRATION

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A STUDY OF LOCAL-AMERICAN & LOCAL-JAPANESE

JOINT BUSINESS VENTURES IN HONG KONG

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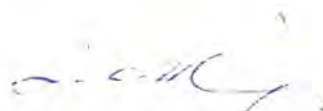
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A C K N O W L E D G E M E N T

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CHAPTER 1

INTRODUCTION

1.1 Purpose of The Study

The present study is undertaken with a view to understand and evaluate the establishment, performance and impact of local-American and local-Japanese joint ventures in manufacturing industries in Hong Kong. Specifically, it attempts to explore and investigate the following important areas :

- (1) The reasons for choosing Hong Kong as a place to invest, and the present scene of all foreign direct investments in Hong Kong;
- (2) The role of U.S. and Japanese direct investments in Hong Kong, and the policies, strategies and characteristics of these investments;
- (3) Local-foreign joint ventures in manufacturing industries in Hong Kong;
- (4) Analysis of local-American and local-Japanese joint ventures in manufacturing industries in Hong Kong :
A comparison of their structure, scope of operation and other characteristics in selected industries;
- (5) The contribution of local-American and local-Japanese joint ventures to Hong Kong economy.

1.2 Research Methodology

The methods used for this study are mainly library research and questionnaire survey, supplemented by in-depth personal interviews.

Library research covers Hong Kong Government survey publications, statistical and annual reports; books and journals; and trade bulletins and newspapers. It was undertaken at various institutions, including the Chinese University and University of Hong Kong, the Hong Kong Management Association, the Commerce and Industry Department, the Trade Development Council, and the Hong Kong Productivity Centre.

Based on the information supplied by the Commerce and Industry Department, as at the end of February 1972, there were seventy-five joint ventures in manufacturing industries in Hong Kong known to have partial participation by U.S. or Japanese capital. Questionnaires were mailed to all these seventy-five establishments in early March this year and the response rates are as follows :

Type of joint venture	Total Number Mailed	Number undelivered	Number responded	Response rate
Local-Japanese	41	2	8	20.5%
Local-American	34	1	5	15.1%
Total	75	3	13	18.0%

The response rate of 18% is rather low. Only the local-Japanese and local-American joint ventures in textile and metalware industries that responded to the writer's survey are believed to constitute representative samples of the sub-population and they will be dealt with more thoroughly in Chapter 6. Many other industries failed to respond at all and these included electronics, tobacco products, building and construction materials, ship breading/repairing and steel rolling, food products and beverages, precious and semi-precious jewellery, watches/clocks and accessories, optical and photographic goods, handicraft products, and miscellaneous others.

In addition to the general questionnaire, personal interviews were mde by the writer to obtain more information and deeper understanding of the operation of joint ventures in Hong Kong. Senior executives and managers of four representative joint-venture enterprises were interviewed in April, 1972. As the information collected are purely for research purposes only, the names of these joint ventures will not be disclosed.

1.3 Scope of The Study

For the present study, a joint venture is defined as the commitment for more than a very short duration, of funds,

facilities, and services by two or more legally separate interests, to an enterprise for their mutual benefit.¹

The venture is joint inasmuch as different interests join forces to achieve a common objective; the venture is a business one because the ultimate end is to make a profit in the production and sale of products or in the rendering of services.²

The present study will deal with international joint ventures, i.e. joint ventures in which some part of the commitment is by foreign nationals and in which host government interests are excluded. Also excluded in this study are joint ventures with more than two foreign countries' participation. The research is restricted to joint ventures in manufacturing industries in Hong Kong that have American and Japanese equity participation. Industries other than manufacturing as well as financial and commercial joint ventures will not be considered. It is believed that information from manufacturing firms are more convenient to collect and that these data, once obtained, will provide basis for reliable and representative analysis.

¹James W. C. Tomlinson, The Joint Venture Process in International Business : India and Pakistan, M.I.T. Press, 1970, page 3.

²Fausto R. Miranda, CIOS 15 Symposium A 2 "Problems of Joint International Business Ventures", 1969.

Arguments for and against joint ventures can be grouped into the following categories :¹

- (a) The simpliste school -- any potential interference with absolute freedom to conduct a multinational enterprise is abhorrent and must be at any cost be avoided.
- (b) The philanthropists school -- the sheer beauty of the concept of international cooperation appears at times to be a sufficient end in itself.
- (c) The strategic pragmatists school -- ownership is merely one dimension in the appraisal matrix of the international investor, it is not a sacred artifact. This is to say, structure is strictly a subsidiary issue and analysis of the tactical possibilities for exploiting an opportunity should presumably include joint operations in any case.

The writer is particularly influenced by the third school of thought. He believes that international business enterprise that is built upon international cooperation, mutuality of interest and enlightened management will contribute greatly to the economic growth of the entire world.

¹Tomlinson, op. cit., page 8.

CHAPTER 2

AN OVERALL REVIEW OF PRIVATE FOREIGN DIRECT
INVESTMENT IN HONG KONG2.1 Reasons for Choosing Hong Kong as a Place to Invest

According to a survey¹ of 40 U.S.-based multinational enterprises in a variety of industries, the following rating scale is obtained for Hong Kong :

	Number of points	Range
(1) Capital repatriation -- no restriction	12	0-12
(2) Foreign ownership allowed -- 100% ownership allowed and welcomed	12	0-12
(3) Discrimination and controls, foreign versus domestic business -- foreign treated same as local	12	0-12
(4) Currency stability -- freely convertible	20	4-20
(5) Political stability -- strong external and/or internal pressure that affect government policies	4	0-12
(6) Willingness to grant tariff protection -- little or no protection granted	2	2- 8

¹Robert E. Stebbagh, Jr., "How to Analyse Foreign Investment
Climates", Harvard Business Review, Sept - Oct, 1969

	Number of points	Range
(7) Availability of local capital -- developed capital market; open stock exchange	10	0 - 10
(8) Annual inflation for last five years : 5 - 7 %	10	2 - 14

Thus, in the evaluation of her peculiar investment climate, Hong Kong has attained a favourable rating of 82 out of a range of 8 - 100. Although Hong Kong does not provide any tax holidays, protective duties, or concessions on land buildings, yet U.S. investors evaluate Hong Kong favourably. The standard rate of corporate income tax is 15 % in Hong Kong.

Aside from survey results from U.S.-based multinational enterprises, it is generally conceded that Hong Kong has the following advantages which are attractive to foreign investors :

- (1) The dexterity, adaptability and industriousness of the labour force;
- (2) A moderate and reasonable wage level compared with those prevailing in Japan and other developed countries;
- (3) A minimum of government control and interference with the process of production and business;

- (4) An advantageous geographical location for marketing strategies;
- (5) Efficient banking, shipping, and other service industries;
- (6) Hong Kong-made products qualify for Commonwealth Preference on their entry into the United Kingdom and other Commonwealth territories.

2.2 Private Foreign Investment in Hong Kong

In this section, the private direct investment in manufacturing industries made by investors from all foreign countries (including U.S., Japan, U.K. etc.) in Hong Kong is investigated.

At the end of May 1970, the total value of foreign investment in fixed capital assets (i.e. in land, building, and machinery and equipment) amounted to HK\$ 399.8 million, and the total number of factories known to have foreign capital participation was 161 (see Appendix 1). The average investment per factory was HK\$ 5.01 million in terms of total investments. Table 2.1 shows the trend in the average size of foreign investment per factory over the period 1961 - 1970.

It is clear from Table 2.1 that there has been a decline in the average size of establishments both in terms of fixed capital assets and in terms of total investments. This means that foreign investment is going more and more to smaller industrial undertakings.

Table 2.1
Average size of Foreign Investment per factory
in terms of
fixed Capital Assets and Total Investment
1961 - 1970

Year	Number of factories established in the year	Average size per factory in terms of fixed capital assets (m\$ millions)		Average size per factory in terms of total investment (m\$ millions)
1961	10	2.61	(47.5%)	5.50
1962	13	3.84	(46.8%)	8.20
1963	19	1.16	(37.5%)	3.09
1964	18	5.15	(68.3%)	7.55
1965	16	3.04	(55.5%)	5.48
1966	13	1.67	(38.1%)	4.38
1967	13	0.43	(26.2%)	1.64
1968	13	0.84	(34.7%)	2.43
1969	15	0.70	(51.5%)	1.36
1970	6	0.09	(30.0%)	0.33
Total	136			

SOURCE : See Appendix 1

Note 1 : Fixed capital assets include land, building, and machinery and equipment valued at original cost. Total investment includes fixed capital assets and working capital, etc. as assessed in May, 1970.

Note 2 : The percentage in parentheses shows the ratio of fixed capital assets to total investment.

There is also a noticeable decreasing ratio of fixed capital assets to total investment. As fixed capital assets are generally thought of as investment that generates profit in the longer run, this declining ratio tends to indicate that foreign investment has been more short-term oriented.

In the early 1960's, about 60% of the factories with foreign investment were in the textile, plastics and metalware industries. By 1965, electronics industry emerged as the industry most favoured by foreign investors.¹

As of end of May 1970, the division of factories by number with foreign investment by industry reveals that foreign investment is heavily concentrated in the two industries of electronics and textiles (see Appendix 3). Appendix 9 shows that in terms of investment value, electronics industry has a foreign investment of HK\$ 247 million, or 30.5% of the total foreign investment. Textile industry came next, with HK\$ 156 million or 19.3%.

The factories known to have foreign interest employed some 55,000 workers in 1970, representing 9.5% of the total number of industrial workers recorded by the Labour Department for the same year. Of these factories, 47% employed less than 100 workers per factory. The electronics industry is the largest employer of

¹ Industry Survey Report -- Foreign Investment in Hong Kong's Industry, Commerce and Industry Department, 1971.

workers in factories with foreign interest, accounting for 45.6%. The plastics industry accounted for 9.4%, the textile industry 16.4% (see Appendix 10 and Appendix 14).

It is interesting to note that the ratio of growth rate of employment to growth rate of number of factories with foreign capital participation seems to taper off after 1966. This is shown in Table 2.2.

Table 2.2

Ratio of Growth Rate of Employment to Growth Rate of
Number of Factories with Foreign Capital Participation
1961 - 1969

Year	Ratio of Growth Rate of Employment to Growth Rate of Number of Factories
1961	90%
1962	127%
1963	35%
1964	115%
1965	120%
1966	126%
1967	27%
1968	30%
1969	27.5%

SOURCE : See Appendix 11.

This implies that factories with foreign interest employed less workers in recent years due probably to soaring wages.

Of the total foreign investment in fixed capital assets at original cost (including the Hong Kong interest in joint ventures), 12.3% was in land, 20.4% in building, and 67.3% in machinery and equipment. The much larger amount of fixed investment in machinery and equipment indicates the stress on technology by foreign investors in Hong Kong (see Appendix 5).

Table 2.3 summarizes the production and exports of factories known to have foreign interest on an industry-by-industry basis.

Exports from the factories with foreign interest constitute 12% of the total domestic exports of Hong Kong for the year 1969. The most important exports are electronics, textiles (garment and make-up), and plastic products. Electronics is the most important field both in terms of value of production and in terms of value of exports, followed by textiles and plastic products. These three industries are discussed in the following section.

2.3 The Three Industries in which Foreign Investment is Heavily Concentrated

The characteristics of the three industries in which foreign investment is heavily concentrated (textiles, electronics, and plastic products) are described in Table 2.4.

Table 2.3

Production and Exports of Factories with
Foreign Capital Participation
1st Jan. - 31st Dec., 1969

Type of Industry	Production as % of total production by foreign-invested factories	Exports as % of total exports by foreign-invested factories
Electronics	50%	61%
Textiles (garment & make-up)	8.85%	16%
Textiles (yarns & fabrics)	7.9%	0.23%
Plastic products (including toys)	7.0%	9%
Shipbreaking/repairing & steel rolling	6.0%	4.6%
Metalware products (including toys)	2.3%	2.7%

SOURCE : See Appendix 13.

SOURCE See APPENDIX 13

Table 2.4

Characteristics of the Three Industries with heavy
Foreign Capital Participation

Characteristics	Electronics	Textiles Garments and make-ups	Wools and fabrics	Plastic products (including toys)	Hong Kong industry as a whole
Employment distribution ¹	74.8%	66%	50.8%	53%	50.4%
Manufacturing space required, (sq. ft./employee)	57	97	174	118	140
Export as % of production	89	90	49	81.5	65
Degree of labour intensiveness ²	374	369	282	506	373
Average size, in terms of :					
1. Employment	144	34.7	44.4	25	25.7
2. Total production (M\$ millions)	3.94	0.95	1.57	0.55	0.69
3. Space (sq. ft.)	8,370	3,200	7,750	3,310	3,650

SOURCE : "Census of Manufacturing Establishments", 1971, Census and Statistics Department of Hong Kong.

Note : 1. Percentage of female to total number of employees.

2. As measured by ratio of employment to production value,
unit in 1×10^{-4} /M\$

it is obvious that these industries are very much export-oriented, employing a high percentage of female workers, are larger in size in terms of employment than Hong Kong industry's average, and generally requiring less manufacturing space. Comparison of some of the characteristics of foreign-invested factories in these three industries with foreign-invested factories in all industries in Hong Kong is presented in Table 2.5 below.

Table 2.5

Comparison of Some Characteristics of Foreign-invested
Factories in the Three Major Industries with All
Foreign-invested Factories in Hong Kong

	Electronics	Textiles Garments and make-ups	Yarns and fabrics	Plastic products (including toys)	All foreign- invested factories of Hong Kong
Export as % of total production	90	75	2	99.4	74
Degree of labour intensiveness ¹	258	429	185	451	321
Average size, in term of :					
1. Employment	652	225	208	574	342
2. Total production (HK\$ million)	22.5	5.54	11.3	12.5	11.1

SOURCE : see Appendix 11 and 13.

Note : 1. As measured by ratio of employment to production value,
unit in 1×10^{-4} /HK\$.

The average size in terms of employment in these three major industries shows that electronics and plastic products are larger than the average size for all foreign-invested factories in all industries. The average size in terms of production in these three major industries shows that electronics and plastics are also larger than the average size for all foreign-invested factories in all industries. The small percentage of exports by textiles (yarns and fabrics) shows its heavy reliance on local consumption.

Comparison of Table 2.4 with Table 2.5 reveals that the average size of foreign-invested factories in these three industries in terms of both employment and production is invariably larger than 100% locally-owned factories in the same industries. With the exception of textile industry, foreign-invested factories in these three industries export a higher percentage of their total production. There is much heavier reliance on local market by foreign-invested factories in textile (yarns and fabrics) industry than by 100% locally-owned in the same industry. With the exception of textile (garments and make-ups) industry, these foreign-invested factories in the three industries are less labour-intensive than the 100% locally-owned factories in the same industries.

2.4 The Future of Private Foreign Direct Investment in Hong Kong

According to a survey conducted by the Commerce and Industry Department in 1971, out of a total 158 factories interviewed 118 stated that steadily increasing wages and production costs together with shortage of skilled labour caused these foreign-invested factories to refrain from embarking on plans to either diversify production or expand their operations. They would rather concentrate on improving production methods and techniques to reduce costs wherever possible. (However, two in the food processing industry and one in the garment industry stated that they intend to diversify production.)

Present indications are that, despite certain reservations about Hong Kong's future political stability and competitive strength vis-a-vis other developing Asian countries, Hong Kong will remain an attractive industrial investment area.¹

At the present moment, the organizations responsible for the promotion of foreign investment are the Hong Kong Trade Development Council which is responsible for promotional campaign overseas, the Commerce and Industry Department which is responsible for publicising the economic conditions and investment climate of Hong Kong and for rendering assistance to foreign industrialists

1

Industry Survey Report -- Foreign Investment in Hong Kong's Industry, Commerce and Industry Department, 1971.

conducting feasibility studies on the prospects of investing in Hong Kong, and the Hong Kong Federation of Industries which provides general information to its 1,000 members to help them in their negotiation with foreign investors concerning establishment of joint ventures. These organizations express that much emphasis will be put on foreign investment promotion in the future.

CHAPTER 3

THE ROLE OF U.S. AND JAPANESE PRIVATE DIRECT
INVESTMENT IN MANUFACTURING INDUSTRIES IN HONG KONG3.1 Magnitude of investment and Number of Establishments

The foreign private direct investment in manufacturing industries in Hong Kong includes 100% foreign-owned and local-foreign joint ventures.

The composition of fixed capital assets and total investment of the U.S. and Japanese investments is shown in Table 3.1.

Table 3.1

Composition of Fixed Capital Assets & Total Investment in U.S. & Japanese Investments in Hong Kong, End of May, 1970

	Fixed capital assets	Total investment	Fixed capital assets as % of total investment
U.S.	HK\$ 125.3 m.	HK\$ 366.4 m.	34.0%
Japan	101.6 m.	182.4 m.	55.6%
Other countries ³	102.5 m.	258.0 m.	39.8%
Total	329.4 m.	808.8 m.	

SOURCE : Appendix 7 and Appendix 8.

Note 1: Fixed capital assets include land, building, and machinery and equipment at current assessed values.

2: Total investment includes fixed capital assets and working capital, etc.

3: Other countries include all foreign countries investing in Hong Kong but exclude U.S. and Japan.

In terms of total investment value, U.S. investment in Hong Kong amounts to HK\$ 366 million or 45.4% of the total foreign investment, while Japanese investment amounts to HK\$ 182 million or 22.8% of the total (Appendix 7 and Appendix 8). In terms of number of establishments, U.S.-invested factories account for 46.5% of the total number of factories known to have foreign interest, while Japanese-invested factories account for 23.3%. Thus, the U.S. and Japanese direct investment combined plays a predominant role in foreign investment in Hong Kong both in terms of investment amount and in terms of number of establishments.

It is clear from the above table that the Japanese invest relatively more in fixed capital assets than all the other countries investing in Hong Kong.

3.2 The Characteristics of U.S. Investment

In analyzing the characteristics of U.S. investment in Hong Kong, we will assume that what is true with U.S. investment in the Far East and Asia will also be true with U.S. investment in Hong Kong.

The rate of growth of the total book value of U.S. direct investment was decelerating in Europe but accelerating in Asia and the Far East (excluding Japan). U.S. direct investment tends to

be higher in those industries which have relatively higher growth rate. The share of the manufacturing sector in the total book value of U.S. direct investment outstanding at the end of 1968 in the developing areas of Asia and the Far East (excluding Japan) was 30%. India stands out in the developing area of Asia and the Far East, followed by the Philippines, with the manufacturing sector accounting for nearly 47 per cent and 36 per cent respectively of the total outstanding book value of U.S. direct investments in these two countries.

The average rate of return in Asia and the Far East (excluding Japan) was 14.12%. The percentage of investment in manufacturing industries in the developing areas of Asia and the Far East (except India and Philippines) does not compare favourably with that in the developed countries. Assembling, processing and services are the sectors welcomed by U.S. investors in the developing areas of Asia and the Far East. However, with various foreign investment incentives emerging in these areas, together with governmental guarantees to reduce risk and uncertainty, U.S. investment in these areas is moving toward more vertically integrated manufacturing industries.¹

The developing areas of Far East and Asia exhibited higher rates of return than those earned in most of the developed areas. U.S. investors expect higher rates of return in less

¹ Economic Survey of Asia and the Far East, United Nation, 1970, pp. 16 - 30.

developed countries because investments in these countries are often perceived to be more risky, and future growth potentials are considered to be less assured than in developed countries.¹ However, the application of oligopoly theory to the behaviour of multinational companies has revealed a picture of international investments being to gain, enlarge or defend positions in markets with attractive growth potentials almost in disregard of short-term profit expectations.² The above characterize U.S. investment in less developed areas of Asia and the Far East.

3.3 The Characteristics of Japanese Investment

Japan is one of the most important investors in the ECAFE region in which Hong Kong is a member. The direct manufacturing investment projects in Hong Kong by Japanese investors amount to 14.4% of the total number of such projects in Asia to the end of fiscal year 1967.³

In Hong Kong, Japanese manufacturing investment projects with 100% ownership account for 27% of its total investment projects (11 projects out of 40), being to highest percentage in Asia to the

¹ Ibid.

² Kindleberger, C. P., American Business Abroad, Yale University Press, 1969, Chapter 1.

³ G. Clark, "An Analysis of Japanese Direct Investment Overseas in Postwar Years", The Developing Economies, Vol. 9, No. 1, 1971.

end of fiscal year 1967. Also, the joint venture in which Japanese investors hold a majority interest account for 65% of its total investment projects in Hong Kong, again the highest percentage in Asia.¹ All this is due evidently to Hong Kong's minimal governmental control and nationalistic reaction.

According to a survey by the Export-Import Bank of Japan conducted in 1968, the main aims stated by Japanese investing in manufacturing industries in Asia were, in order of frequency, the development of market, the protection of market, export of components and materials, exports to third countries, and export of machinery. The bank's 1970 survey shows that 34% of the Japanese manufacturing investment projects undertaken overseas was to take advantage of low labour or material costs overseas and that 71% of Japanese investors in manufacturing industries overseas imported most of their main materials from Japan. The Japanese direct investment overseas was often made for the purpose of long-term trade development and commercial contact rather than for immediate profit.²

Some Japanese investors resort to invest overseas in order to make better use of their surplus machinery, equipment, and personnel. Textile is a good example. Others find that their

¹ G. Clark, op. cit., page 65.

² "Liberalization of International Capital Movements : Japan", OECD Report, 1968, pp. 22 - 23.

existing sales outlets may be lost without low-cost overseas production. One frequently stated reason for their investment in joint ventures is that they want to capitalize on the sales skill of the local partners.

In general, the Japanese share in the equity of their investment in manufacturing projects in Asia tends to be comparatively low. Joint ventures are more preferred to 100% owned. This is true for Japanese investment in Hong Kong. The fact that Japanese investors seek much of the return from their investment through exports and imports helps to explain their preference for joint ventures. Provided that the share of equity is sufficient to give them control over the purchasing and/or sales policies, they would not insist on majority or 100% interest.¹

Export strategies comprise fragile tools for Japanese investment overseas.² The skill of the Japanese investors to find sales outlets in Japanese domestic markets is rarely employed. This will be shown to hold for the local-Japanese factories in Hong Kong.

¹ G. Clark, op. cit., p. 61

² Ibid.

Textiles, electrical/electronics and sundry industries have so far done better than average as earnings are concerned for Japanese investment overseas.¹

In South and East Asia, Taiwan has largest share in the number of Japanese investment projects, accounting for 15.4%. Hong Kong has the second largest share (14.4%), but the average amount of investment per project is the lowest (except for Burma).² For Hong Kong, where the raw materials supply is not the main motivation for Japanese investors, the average volume per project is kept small to take advantage of flexibility and diversity. Hong Kong is treated more as a market for Japanese exports than other less developed countries in South and East Asia.³

3.4 Comparison of U.S. and Japanese Investment

For one thing, the Japanese investors repatriated very little of their earnings from overseas subsidiaries and joint ventures. For example, in fiscal year 1969, earnings transferred back to Japan totalled only US\$ 46 million, which is only 3.3% of Japan's direct investment outflow in 1969. In the case of American investors, 9.8 of their direct foreign investment in 1968 were transferred back to U.S. in the form of earnings

¹ Economic Survey of Asia and the Far East, United Nations, 1970 pp.16-30

² Ibid.

³ Ibid.

(including royalties).¹ The main reason for low amount of earnings transfer in the Japanese case is probably this : many Japanese direct investors consider the major return from their overseas operations to be the assuring of markets for their exports or the assuring of supply (mostly materials and semi-finished industrial products) for use back home. This difference in attitude towards investment earnings is reflected in the difference in attitude towards equity share. Since, U.S. investors care very much about financial returns from their invested capital and/or skills, they are, understandably, reluctant to share returns with foreign people, which helps to explain the high proportion of equity they hold in their overseas investment projects. But command over capital is not an important consideration with most Japanese investors.²

Table 3.2

Parent Country Exports of Capital Goods & Current Inputs to Manufacturing Affiliates Overseas Relative to Parent Company Investment, 1967

	Japan	U.S.
Parent country investment	100	100
Annual expenditure on fixed assets	-	14
Annual capital goods exported to overseas affiliates	9	1
Annual current inputs exported to overseas affiliates	142	9

SOURCE: G. Clark study

¹ G. Clark, *op. cit.*, 1971.

² *Ibid.*

Table 3.2 reveals the trade-orientation of Japanese direct investment overseas as compared with the U.S. investment.

It is commented that there was a poverty of management resources for international business for Japan. Most of the Japanese overseas are those which have imported Western know-how since the end of the Second World War. So, Basically, the Japanese enterprises overseas do not differ much in their international management, except in the personnel and labour field.¹

¹ "Adjusting to Foreign Business Climates", Research Department, International Management Association of Japan, Management Japan, vol. 5, No. 2, 1971

CHAPTER 4

LOCAL-FOREIGN JOINT VENTURES IN MANUFACTURING INDUSTRIES

IN HONG KONG : AN OVERALL VIEW

4.1 The Overall Situation of Local-Foreign Joint Ventures

(a) Division of local-foreign joint ventures in Hong Kong by industry. This is presented in Table 4.1 below.

Table 4.1

Number of Local-Foreign joint ventures in Hong Kong
by Industry, End of May, 1970

Industry	No. of joint ventures	As % of 100% foreign-owned factories in the industry
Electronics	5	13.9
Textiles (garment & make-up)	16	122.3
Textiles (yarns & fabrics)	8	200.0
Plastic products (including toys)	5	125.0
Metalwares (including toys)	3	50.0
Others#	33	118.0
Total	70	

source : Appendix 3.

Others include food products, watches/clocks and accessories, hair products, pleasure boat, etc.

An investigation into Table 4.1 shows that foreign investors consider textiles and plastic products suitable for joint ventures. On the other hand, although electronics industry is most welcomed by foreign investors, there is little motivation for them to join forces with local partners. This is because foreign investors are more conscious of product quality and therefore prefer to have 100% ownership in the electronics field. In fact, the sophisticated level of technical know-how and marketing facilities possessed by foreign investors make them reluctant to establish joint ventures.

(b) Breakdown of fixed capital assets of local-foreign joint ventures in Hong Kong. This is shown in Table 4.2 below.

breakdown of fixed Capital Assets of Local-
Foreign Joint ventures in Hong Kong,
End of May, 1970 (in HK\$)

	Foreign Interest Only				Foreign & Local Interest Combined			
	At original cost		at current assessed value		At original cost		At current assessed value	
	(a)	(c)	(b)	(d)				
Land	25.5	(62.5)	(308)	39.7	(62)	(388)	40.8	59.5
Building	38.0	(69)	(143)	37.0	(62.5)	(155)	55.2	59.4
Machinery & Equipment	71.5	(56.5)	(50.1)	51.6	(57.7)	(60)	126.4	89.4
Total	135.1	(61.0)	(76)	128.3	(61.8)	(95)	222.4	208.4

SOURCE : Appendix 5.

SOURCE : Appendix

- Note : Column (a) is foreign portion of investment in joint ventures as % of local-foreign combined investment at original cost;
- (b) is the foreign portion of investment in joint ventures as % of local-foreign combined investment at current assessed value;
- (c) is the foreign portion of foreign investment in joint ventures as % of investment in 100% foreign-owned establishments at original cost;
- (d) is the foreign portion of the investment in joint ventures as % of investment in 100% foreign-owned establishments at current assessed value.

It can be seen from the above table that the percentage figures in column (a) and (b) have been about the same. This means that foreign equity participation in Percentage terms remains almost unchanged over the life of joint ventures. This may be a cause of internal conflict. In the later stage of joint-venture operations, local partner usually wants to acquire more equity rights.

Foreign partners generally have majority equity on land, building, and machinery and equipment, but the majority on land and building is much larger. From a discussion with an officer in the Federation of Hong Kong Industries who is responsible for

foreign investment promotion, the writer learned that most of the machineries and equipment in joint ventures, especially in local-Japanese ones, are supplied (usually together with the necessary know-how) by the parent country of the foreign partners. In fact, this has been the term of agreement of many joint ventures in Hong Kong. The amount of foreign investment in Machinery and equipment includes such items as sales commission, technical service and advice, which are counted as equity from the foreign partners. This means that, in general, local partners have to pay more on machineries and equipment in order to acquire the necessary know-how.

(c) Comparison of fixed capital assets in joint ventures and in 100% foreign-owned subsidiaries. Column (d) of Table 4.2 reveals that there is about 4 times as much foreign investment in land in joint ventures than in fully-owned foreign subsidiaries, 1.6 times as much in building, and 0.6 times as much in machinery and equipment. The percentage figures in column (c) and (d) differ rather significantly (d_i is greater than c_i). The difference may be explained in terms of the following, assuming the rate of depreciation or appreciation on land, building, machinery and equipment is the same in joint ventures as in 100% foreign-owned subsidiaries :

- i) Reinvestments in joint ventures are more frequent and greater than in 100% foreign-owned subsidiaries;

- ii) The shrinkage in investment in some of the 100% foreign-owned subsidiaries is larger than that in joint ventures;
- iii) A combination of these two.

The relative shares of land, building, and machinery and equipment in total fixed capital investments in 100% foreign-owned subsidiaries and in joint ventures respectively can be derived from Table 4.2 and are shown in Table 4.3 below.

Table 4.3

Relative shares of Land, building, and machinery and Equipment in total fixed capital investments in 100% Foreign-Owned subsidiaries and in joint ventures
End of May, 1970

Item	As % of total fixed capital investment in	
	100% foreign-owned establishments	Joint Ventures (excluding Hong Kong interest)
Land	4.6	19.7
Building	14.7	28.1
Machinery and Equipment	80.7	52.3
Total	100.0	100.1

SOURCE : Appendix 5.

Note: Original costs are used to calculate the percentages.

The average size of investment in fixed capital assets per factory in 100% foreign-owned subsidiaries and joint ventures is shown in Table 4.4.

Table 4.4

The Average Size of Investment in Fixed Capital Assets
Per Factory in 100% Foreign-owned Subsidiaries and
Joint ventures, end of May 1970 (in HK\$)

	100% foreign-owned subsidiaries	Joint ventures (excluding Hong Kong interest)
Land	0.09 m.	0.37m.
Building	0.28 m.	0.54m.
Machinery and Equipment	1.55 m.	1.01m.
Total	1.93 m.	1.93m.

SOURCE : Appendix 5.

Note : Original costs are used in the calculation of investment amounts.

These figures indicate that, on the average, foreign investors invest more per project in land and building in joint ventures than in 100% foreign-owned subsidiaries. This means foreign investors prefer renting land and building for their 100% - owned subsidiaries. Should the environment not warrant continuous operation, they need only transfer the machineries and equipment to other countries.

Normally, the existence of advantages of longer duration (e.g. the R & D of foreign partners) will prompt both partners to cooperate in the form of joint ventures. Both partners will like to see their mutual interests prolonged by committing investment in land and building.

(d) Employment in joint ventures. Most of local-foreign joint ventures have less than 100 employees per factory (including office administrative employees and technical operatives directly engaged in the production process). Details are shown in Appendix 10.

(e) Breakdowns of total investment (fixed capital assets plus working capital, etc.) by industry in joint ventures. The breakdowns by industry and their respective percentages in total foreign investment in Hong Kong is shown in Table 4.5 below.

Thus, in terms of total investment value, joint ventures in textiles and plastic products are far more important than 100% foreign-owned operations. The small percentage of foreign investment in electronics in the form of joint ventures indicates that foreigners prefer to have this industry 100% owned.

Table 4.5

breakdowns of Total Investment in Joint Ventures
by Industry and their Respective Percentages in
Total Foreign Investment in Hong Kong, End of May, 1970
(in HK\$ millions)

	Total Investments in Joint Ventures (including Hong Kong interest)	As % of Total Foreign Investment in Same Industry
Electronics	4.16	1.69
Textiles (garment & make-ups)	42.98	66.1
Textiles (yarns and fabrics)	76.4	84.0
Plastic products (including toys)	28.3	81.1
Metalwares (including toys)	5.4	37.1
Others	211.6	39.0

SOURCE : Appendix 9.

Table 4.6 shows the average size of joint ventures in terms of total investment (including fixed capital assets plus working capital, etc.) compared to that of the 100% foreign-owned enterprises in Hong Kong by industry.

Table 4.6

Average size of Joint Ventures Compares to That of
100% Foreign-owned in terms of Total Investment,
by Industry, end of May, 1970.

(in HK\$ millions)

	Joint Ventures (including Hong Kong interest)	100% foreign-owned
Electronics	0.83	6.75
Textiles (garment & make-ups)	2.63	1.69
Textiles (yarns & fabrics)	9.55	3.66
Plastic products (including toys)	5.66	1.67
Metalwares (including toys)	1.80	1.35
Others	6.30	17.00

SOURCE : Appendix 9.

The implications from the above table are: (a) the average size of 100% foreign-owned electronics firms in terms of investment amount is larger than that of the joint ventures; (b) the reverse is true for textiles, plastic products, and metalwares; (c) on the whole, other industries have the same structural characteristics as shown in (a).

4.2 The Overall Situation of Local-Japanese and Local-American Joint Ventures

The number of local-Japanese and local-American joint ventures accounts for 66% of the total number of local-foreign joint ventures in Hong Kong. This is shown in Table 4.7 below.

Table 4.7

Number of Local-Japanese & Local-American Joint Ventures and Their Percentage Relation to 100% Foreign-owned Establishments, End of May 1970

	Number of Joint ventures	As % of 100% - owned
U. S.	21	34.5
Japan	28	215.0
Others	25	89.5
Total	74	

SOURCE : Appendix 2.

Note : The total number of joint ventures given in Table 4.7 is greater than that given in Table 4.1 (a true figure) due to the fact that some firms have more than one foreign interest.

It seems that joint ventures are much favoured by Japanese investors in comparison with 100% ownership. For the American investors, just the reverse is true.

At end of May, 1970, the average size per project of local-Japanese ventures in terms of total investment is HK\$ 4.68 million, of which HK\$ 2.8 million is in fixed capital assets. The average size for local-American ventures is HK\$ 4.52 million in total investment and HK\$ 2.52 million in fixed capital assets (see Appendix 3).

Table 4.8 shows the investment by U.S. and Japanese investors in joint ventures in Hong Kong.

Table 4.8

Investment by Japanese and U.S. investors
in joint ventures in Hong Kong, end of May, 1970
(in HK\$ millions)

	Fixed Capital Assets		Total Investment (including fixed capital assets, working capital etc.)
	at original cost	at current value	
Local-Japanese	84.0	78.2	130.9
Local-American	52.8	52.9	94.9
Other joint ventures	85.6	77.3	143.0
Total	222.4	208.4	368.8

SOURCE : Appendix 3.

Note : Investment values include Hong Kong interest.

In terms of fixed capital asset investment, the local-Japanese ventures account for 37.5% of the total fixed capital assets in all joint venture investments in Hong Kong, while local-American ventures account for 25.4%. In terms of total investment, local-Japanese and local-American ventures account for 35.4% and 25.7% of the total investment in all joint ventures in Hong Kong respectively.

The relative share of fixed capital assets in total investment in local-Japanese ventures is 59.8% when assessed on current value basis; in the case of local-American ventures this share is 55.8%.

On the other hand, the relative share of fixed capital assets in total investment in 100% Japanese-owned subsidiaries is 45.3%; in 100% American-owned subsidiaries, it is only 26.7%. This indicates that foreign investors put up more fixed capital assets in joint ventures than in 100%-owned subsidiaries.

CHAPTER 5

THE STRUCTURAL CHARACTERISTICS OF LOCAL-AMERICAN AND LOCAL-JAPANESE JOINT VENTURES IN HONG KONG & THEIR COMPARISON

5.1 General description

Based on information from the joint ventures responding to the author's survey, the various structural characteristics of local-American and local-Japanese joint ventures may be briefly stated.

There are more medium-sized local-American joint ventures than local-Japanese. The distribution of their size is shown in Table 5.1.

Table 5.1

Size Distribution of Local-American & Local-Japanese joint ventures in Hong Kong

	Small	medium	Large
Local-American	20%	60%	20%
Local - Japanese	37.5%	25%	37.5%

SOURCE : From Author's primary data.

Note : The relative size is a subjective classification by respondents themselves.

Both local-American and local-Japanese firms seldom produce capital goods, services, or industrial raw materials. Generally speaking, local-American joint ventures manufacture more consumer goods, while local-Japanese firms manufacture more semi-finished industrial goods. The average length of time of establishment is 6.6 years for local-American firms & 7 years for local-Japanese firms.

Local-American joint ventures are less vertically integrated in their manufacturing process than local-Japanese firms. On the other hand, both put negligible amount of resources in processing, servicing, and R & D. This is shown in Table 5.2.

Table 5.2

Degree of vertical integration in Local-American & Local-Japanese Joint ventures in Hong Kong

	Local-American	Local-Japanese
Vertically integrated manufacturing	60%	87.5%
Assembly	40%	12.5%
Processing, servicing, it & D	0%	0%

SOURCE : From Author's primary data.

The local-American joint ventures are relatively more labour-intensive than are local-Japanese firms. Both local-Japanese and local-American firms are not capital-intensive. This may be seen from Table 5.3.

Table 5.3
Labour-intensiveness & Capital-intensiveness in
Local-Japanese & Local-American joint ventures

	Local-American	Local-Japanese
Labour-intensive	60%	37.5%
In-between	40%	62.5%
Capital-intensive	0%	0%

SOURCE : From Author's primary data.

5.2 Equity distribution

There are more 50-50 split local-American firms than local-Japanese firms in Hong Kong. The equity distribution between foreign and local partners indicates that American and Japanese partners are more in favour of majority ownership. The percentage of foreign majority and minority in local-American and local-Japanese joint ventures are shown in Table 5.4.

Table 5.4

Voting Equity Distribution in Local-Japanese & Local-American Joint Ventures in Hong Kong

	Local-American	Local-Japanese
Foreign Majority equity	40%	50%
Foreign minority equity	20%	25%
50 - 50 split	40%	25%

SOURCE : From Author's primary data.

Table 5.5 shows the composition of foreign equity participation in local-American and local-Japanese joint ventures.

Table 5.5

Composition of Foreign Equity Participation in Local-American and Local-Japanese Joint Ventures in Hong Kong

	Range of foreign equity participation in (current and initially)	
	Local-American	Local-Japanese
Machinery, plant, equipment	30-40%	40-50%
Technical service	0-10%	10-20%
Patents, licenses, know-how	0%	0%
Cash	40-50%	40-50%

SOURCE : Author's primary data.

5.3 Selection of Partners

Before a joint venture is undertaken, there is a 60% probability that the American partner has experience in such joint operations in other less developed countries, whereas for the Japanese partner, it is 50%. The local partners tend to be less internationally oriented than their American and Japanese partners.

The following describes the selection process of partners from the view points of both sides (local and foreign). Table 5.6 shows the relative weights employed by local-American and local-Japanese joint ventures in the selection of partners. For the local-Japanese firms, technical competence and resources/facilities complimentary are major criteria. For local-American firms, they use the same major criteria but assigned heavier weights. In both cases, corporate image is a rather insignificant factor. Satisfactory past association and same line of business are relatively unimportant in the selection process.

Table 5.6

Relative weights in the selection of Partners by Local-Japanese and Local-American Joint ventures in Hong Kong

	Local-Japanese	Local-American
Technical competence	4.35	5.0
Resources/facilities complimentary	4.40	6.0
Satisfactory past association	2.40	2.3
Same line of business	1.70	2.0
Corporate image	0.55	0.66

SOURCE : Author's primary data.

Note : For calculation of these relative weights, see Appendix 15.

In the case of local-Japanese partners, most of them have also participation of joint business ventures in other less developed countries in South-east Asia. In the case of local-American partners, nearly none of them have joint ventures in this region except in Hong Kong.

5.4 Division of Responsibilities

Table 5.7 shows how the local-Japanese and local-American joint ventures in Hong Kong divide responsibilities between foreign and local partners.

Local partners have major responsibilities in areas of personnel, production, administration, and public relations in local-American joint ventures. In the case of local-Japanese joint ventures, local-partners play predominant role in personnel, administration, public relations, and marketing. Foreign partners play a predominant role either in engineering (Japanese) or in marketing (American). They usually share responsibility with local partners in the area of supplies.

Table 5.7

Division of Responsibilities between Foreign and Local Partners and Employees in Local-Japanese and Local-American Joint Ventures in Hong Kong

	Local-Japanese		Local-American	
	Foreign	Local	Foreign	Local
Marketing	14	28	25	3
Supplies	24	23	18	13
Engineering	26	14	10	15
Production	18	23	0	25
Personnel	8	31	0	25
Public relations	12	28	6	21
Finance	14	26	11	18
Administration	11	28	3	23

SOURCE : See Author's primary data.

- Note : (1) The range of the relative weights is 0-35 for (a), 0-25 for (b)
- (2) For calculation of these weights, See Appendix 16.
- (3) The numbers in the above table represent relative weights assigned to management functions to indicate the sharing of responsibilities between local & foreign.

On the whole, local-Japanese joint ventures have more foreign employees in senior management levels than local-American. In both cases, the number of chief executives and directors is about the same for local and foreign, as shown in table 5.8 below.

Table 5.8
Distribution of Local and Foreign Nationals in
Different Management Levels in Local-American and
Local-Japanese joint ventures in Hong Kong

Management levels	Local-American		Local-Japanese	
	Local	Foreign	Local	Foreign
Chief executive & directors	50%	50%	50%	50%
Managerial	100%	0%	55%	45%
Supervisory	100%	0%	70%	30%
Workers	100%	0%	100%	0%

SOURCE : From Author's primary data.

5.5 Internal conflicts

The internal conflicts experienced in local-American and local-Japanese joint ventures in Hong Kong may be described by the following table 5.9.

Table 5.9
Internal Conflicts Experienced by Local-Japanese and Local-
American Joint Ventures in Hong Kong

Issues of internal conflicts	Yes		No		Not sure	
	Local-American	Local-Japanese	Local-American	Local-Japanese	Local-American	Local-Japanese
Basic management philosophy	20%	0%	80%	100%	0%	0%
Appointment of key personnel	0%	14%	80%	86%	100%	0%
Reinvestment of earnings	20%	28%	60%	58%	20%	14%
Expansion strategy	20%	28%	60%	58%	20%	14%
Transfer pricing	40%	14%	40%	72%	20%	14%
Criteria for evaluation of firm's overall performance	20%	0%	60%	86%	20%	0%
Unbusinesslike behaviour	0%	14%	80%	58%	20%	28%
Other issues	-	-	-	-	-	-

SOURCE : From Author's primary data.

Note : 'Yes' indicate that internal conflict over a certain issue has experienced in the joint venture.

Local-Japanese firms have troubles in the appointment of key personnel and business ethics, while local-American firms do not have such troubles. On the other hand, local-American firms have troubles in basic management philosophy and performance evaluation criteria which the local-Japanese firms do not have. Local-Japanese firms had most of their internal conflicts in such areas as reinvestment of earnings and expansion strategy, while local-American joint ventures had most of their internal conflicts over transfer pricing.

5.6 Overall Performance

Both local-American and local-Japanese joint ventures agree on the fact that quality control and productivity of labour in Hong Kong are superior to her neighbouring less developed countries. There is, however, great variation in the comments on production cost in Hong Kong, as this depends on nature of industrial processes and technology.

All of the local-Japanese joint ventures claim that their performance compares favourably with that in 100% locally-owned and 100% foreign-owned firms in the same industry. However, only two-thirds of local-American firms express the similar feeling. When compared with local-foreign joint ventures in the same industry, 33.3% of local-Japanese firms and 50% of local-American firms report same overall performances. None of the local-Japanese or local-American firms thinks that it is inferior in overall performance to 100% locally-owned, 100% foreign-owned, or local-foreign jointly-owned firms.

There is more reliance on Hong Kong market for local-Japanese firms than local-American firms. Less than 4% of total sales by the local-Japanese firms are exports to Japanese market. Both local-Japanese and local-American joint ventures rely on U.S.A. as their major market.

The evaluation of the overall performance by local-Japanese and local-American joint ventures in Hong Kong is shown in Table 5.10.

Table 5.10

Evaluation of Overall performance by Local-Japanese and Local-American joint ventures in Hong Kong

	MOST Satisfactory		Satisfactory		Not Satisfactory	
	Local-Japanese	Local-American	Local-Japanese	Local-American	Local-Japanese	Local-American
Rate of return on investment	0%	33%	85%	66.6%	15%	0%
Rate of growth in sales	28%	33%	58%	33.0%	14%	33%

SOURCE : Author's primary data.

Most local-Japanese and local-American joint ventures in Hong Kong find the rate of return on investment and rate of growth in sales satisfactory. More local-Japanese firms are dissatisfied by the rate of return on investment while more local-American are dissatisfied by the rate of growth in sales.

CHAPTER 6
ANALYSIS OF LOCAL-AMERICAN AND LOCAL-JAPANESE
JOINT VENTURES IN SELECTED INDUSTRIES
IN HONG KONG

6.1 The Textile Industry¹

The respondents from local-American and local-Japanese joint ventures in textile industry all indicate that they have a long history of operation since their establishment (average years of operation is 9.5). The characteristics of such joint ventures are briefly analyzed below.

First, it is interesting to note that both the local as well as the foreign partners had some experience in the operations of international business in other less developed countries before their joint ventures in Hong Kong were undertaken. With the exception of one local-American firm, these respondents claim that either or both of the parties have participated in joint operations in other less developed countries in the S. E. Asia region. Such results are rather normal for this kind of industry (textile is labour-intensive) because host government in the less developed countries are usually reluctant to allow 100% foreign-owned operations.

¹ Total number of joint ventures in textile industry with American and Japanese interest : 21 firms;
Firms responded to the author's survey : 5 (1 local-American, 4 local-Japanese);
Firms interviewed by the author : 2 (1 local-American, 1 local-Japanese)
Date : April, 1972.

Besides, personnel problems is a significant factor, Equity participation by local partners will lighten the hardship and burden of the foreign investors.

Second, the motives for the recent establishment of a joint venture appear to be different for the Japanese and American investors. Based on personal interviews and questionnaire responses, the motivation may be analyzed as follows :

The local partners want to secure raw material supplies through the joint venture arrangement. For the Japanese firms, they moved into Hong Kong as a means to circumvent U.S. trade protectionist policies. Under the textile control agreement, the Japanese textile exports to U.S. were placed under severe restriction, so Japan's domestic market for synthetic fibre was reduced considerably. To open new sales outlets, four leading Japanese synthetic fibre producers moved to Hong Kong and established joint ventures with local partners.¹ Thus we witnessed Teijin cooperating with Marubeni-Iida Ltd. and Nanyang Cotton Mills and Hong Kong Carpet, Kuraray with South Sea Textile Ltd., and Teray with Hong Kong Textiles Alliance Ltd..

In general, the reasons listed for entering into a joint venture with local partners, based on the results of the questionnaire survey, are :

¹ Hong Kong Standard, 21 October, 1971

- (1) Foreign Partners' desire to enjoy Commonwealth Preferential Tariff treatment;
- (2) Local partners' desire to have foreign capital and experience;
- (3) Foreign partners' desire to have local partner to look after general administration and personnel problems;
- (4) Local partners' desire to have market outlets (in the case of local-American joint ventures).

Third, the country which is mentioned to have most favourable investment environment by these textile joint ventures is Indonesia, implying that cheap and abundant labour is the decisive factor for investment in this type of industry. One small local-Japanese textile joint venture mill terminated its operation in 1970 as a result of rising wage costs in the colony. However, the advantage of having Hong Kong partners to absorb Japanese synthetic fibres and to market finished products outweighs the disadvantage of sourcing labour cost, so there is still a net increase of 5 in the number of local-Japanese textile joint ventures during the period 1970 - 1971. This indicates that Japanese investors are predominantly trade-oriented and only moderately profit-oriented.

With regard to local-American textile joint ventures, there is a net increase of six in number during this same period. A knitwear executive representative of this type of joint business explained that these newly-opened joint ventures demanded dexterity in labour to produce better quality merchandises. It is worth to note that five out of these six produce garment and make-ups rather than yarns and fabrics. This implies that American investors have shifted their investment from rather simple production that requires intensive cheap labour to sophisticate production that requires dexterous labour.

Fourth, the textile joint ventures generally enjoy a satisfactory rate of return and rate of growth in sales. One local-American joint venture which has its marketing and supply functions handled mainly by the American partner (this company's current major markets are U.S.A. 80%, England 10% and Canada 10%), the rate of return on investment as well as the rate of growth in sales has been described as most satisfactory. One local-Japanese joint venture with 95% of its sales in Hong Kong domestic market (its product is classified as semi-finished industrial goods) find her rate of growth in sales most satisfactory. In this firm, engineering matters are handled mainly by the technically-equipped Japanese-partner while marketing and other management functions are taken care of by the local partner. The performance of this firm is better than local companies in the textile industry, whether 100% locally-owned, 100% foreign-owned, or local-foreign joint venture.

At the other extreme, a local-Japanese knitwear firm whose supplies are mainly from its Japanese partner while whose marketing and other management functions are left to the local partner, finds its rate of growth in sales not satisfactory (major market : U.S.A.). In this case, the Japanese partner merely acts as a permanent supplier of raw materials through the initial joint venture agreement, leaving the local partner to fight for export markets.

Fifth, there is considerable correlation between the composition of local and foreign employees at the senior management level and the current distribution of voting power equity. This is shown in Table 6.1.

Table 6.1
Voting Power Equity & Composition of Local and Foreign
Nationals at the Senior Management Levels⁺
(i.e. chief executive & directors & managerial)
in Textile Joint Ventures in Hong Kong.

Foreign nationals as % of total number of people at the senior management level	
Foreign majority	2/3
Foreign minority	1/3
50 - 50 split	3/7

⁺Senior management level include such persons as the chief executive, board directors, and managerial-level personnels.

SOURCE : Author's primary data.

Local partners with minority voting power indicate there were internal conflicts over reinvestment of earnings and expansion strategy. On the other hand, local partners with majority voting power experienced no such internal conflicts. The 50 - 50 joint ventures also have no such internal conflicts (this is somewhat contrary to the popular thinking that a 50 - 50 joint venture establishment is a bone of contention).

The equity distribution in a joint venture can also be a good indicator of the distribution of responsibilities between local and foreign partners. This is shown in Table 6.2.

Table 6.2
voting Equity Distribution & Predominant Responsibility
of Foreign Partner
in Textile Joint Ventures in Hong Kong

Foreign Partner's Voting Power Equity	Foreign Partner's Predominant Responsibilities
35%	Marketing and supplies
50%	Supplies and engineering
60%	engineering and supplies
70%	Engineering and Production

SOURCE : Author's primary data.

It can be seen from the above table that engineering function in textile joint ventures bears a close relationship with the voting power equity composition. With the exception of one local-American firm which makes use of the marketing talent of the American partner, all the local-Japanese firms responded that they were established to make use of the technical know-how of the Japanese partner. Japanese partners are also very anxious to have predominant responsibility over supplies. They want to make sure that Hong Kong partners will buy from their Japanese parent companies after establishing joint ventures in Hong Kong in which they have a majority voting right.

Sixth, regardless of the equity distribution, lower-level employees (worker and supervisory grade) are 100% local. This links with the fact that local partners have invariably assumed a predominant role in personnel and administration areas.

Most of the firms mentioned technical competence and resources/facilities complimentary as major criteria for selection of partners. It is surprising to find that none of these firms gives a high ranking for corporate image of either partners in the selection process. Same line of business is allocated a moderate ranking. Satisfactory past association is given a high ranking by firms whose major market is domestic.

Generally speaking, the respondent firms think that they are medium in size with reference to the type of textile industry which they are engaged in. They classify themselves as labour-intensive manufacturing enterprises. With the exception of one knitwear firm, all consider their companies advanced in technology. Local partners seldom play a major role in engineering and production.

Firms seldom secure long term loans from the foreign parent companies. They usually rely on the local bank and/or foreign bank, the local parent company, or a combination of these two.

Table 6.3 depicts the typical form of participation of foreign equity capital in the textile joint ventures in Hong Kong.

Table 6.3

Foreign Equity Participation in
Textile Joint Ventures in Hong Kong

Type of Equity	Relative share
Machinery, plant and equipment	40%
Technical services	20%
Cash	40%
Patents, licence and know-how	0%

SOURCE : Author's primary data.

the amount of equity in machinery, plant and equipment provided by foreign partners, while never totalled more than 40%, is generally in direct relation with their voting right. The consistency of relative shares in terms of both current and initial equity participation as shown in the above table implies that

- (a) both partners regard the initial equity distribution as stable;
- (b) reinvestment by foreign and local partners always bears the same proportion so that the stable equilibrium is upheld;
- (c) the practice of gradually reducing foreign equity in technical services is absent (with more local personnel finished their training, the high initial foreign equity in technical services would be reduced).

It is to be noted that exports from local-Japanese firms to Japan never exceed 5% of their total company sales. Either the Japanese partners do not have such motive to start with, or the local partners do not find it possible to enlarge the firm's market outlets by utilizing the marketing talent of their Japanese partners.

6.2 The Metalware Industry¹

On the whole, the structural characteristics of metalware joint ventures differ very much from that of textile joint ventures in Hong Kong.

¹ Based on responses from 4 local-Japanese undertakings and on 1 personal interview of a local-Japanese metalware joint venture.

The responses from the local-Japanese and local-American metalware joint ventures in Hong Kong (total number of such ventures at end of April 1972 : 7) all indicate that they have a relatively long history of operation since their establishment (the average years of operation is 6.8).

Both the local partners and the foreign partners had no experience in the international business in other less developed countries before they undertook the joint ventures in Hong Kong. The motives for establishing such joint ventures in Hong Kong are quite distinctive in nature:

- (1) Capital need by local partners for expansion and growth;
- (2) Need for the introduction of Western management methods;
- (3) Local partners' technical competence and their familiarity with local customers' needs;
- (4) The corporate image of local partners' parent companies.

It is interesting to note that the most favourable country (i.e. Indonesia) mentioned by textile joint venture investors is invariably described as the least favourable country for investment in the metalware industry. This means that wage level is not a

crucial consideration here. Rather, the operation level of related industries, the supply of skilled technicians, local consumption, government policy and market pattern are factors that are considered important. These respondents suggest that the most favourable country for investment in metalwares is Singapore, followed by Hong Kong and Taiwan.

The products of the respondent firms are all classified as semi-finished industrial goods. They find the rate of return and the rate of growth in sales satisfactory. As the range of local consumption is from 90% to 95%, the rate of growth in sales in fact reflects Hong Kong's industrial growth over the last few years.

Technical competence of local partners are unanimously agreed upon as the most important criterion for the selection of partners. Resources/facilities complimentary and satisfactory past association are given moderate weights in the selection process. None of the firms describes itself as labour-intensive or capital-intensive. There is no homogeneity of size among these firms. They all assert that their overall performance is better than the 100% locally-owned, the 100% foreign-owned, or other jointly-owned companies in the same industry.

Foreign partners are less involved in supplies and engineering. Marketing is invariably taken up by local partners, as they are more familiar with local customers, market structure and demand. It is even mentioned by one of the firms that the foreign partner never touches anything on marketing. The other management functions mostly performed by local partners are personnel, public relations, finance, and administration, irrespective of whether local partners have majority equity or not. This is different from the textile joint ventures where there is noticeable relation between foreign partners' equity share and their predominant responsibilities.

One of the firms revealed that there had been internal conflicts over the appointment of key personnel, reinvestment of earnings, expansion strategy, transfer pricing and even "unbusiness-like" behaviour of disclosing important information to competitors. This is a firm where the foreign investor is merely a dummy in the joint venture except that he has majority ownership and provides capital funds for the firm's expansion. The local partner is fully responsible for the firm's sales and production. With the foreign partner unfamiliar with the local industrial scene, there inevitably has been internal conflict over reinvestment and expansion strategies. The appointment of incompetent foreign nationals to key positions in the joint venture is also criticised by the local partner.

there is no observable correlation between the composition of local and foreign senior executives in these joint ventures and the current distribution of voting power equity. This is depicted in Table 6.4.

Table 6.4

Voting Power Equity and Composition of Senior Management⁺
in Metalware Joint Ventures in Hong Kong

Foreign nationals as % of total number of people at the senior management level	
Foreign majority	1 / 4
Foreign minority	1 / 5
50-50 split	1 / 3

SOURCE : Author's primary data.

⁺Senior management level include such persons as the chief executive, board directors, and managerial-level personnels.

irrespective of the equity share held by foreign partners, local employees in metalware joint ventures are offered greater responsibilities at various levels of management than in the case of textile joint ventures. Foreign partners are usually content with a 50% membership in the board of directors and do not mind to have a high percentage of local employees in other levels of management. Usually, lower-level employees (workers and supervisory) are 100% local.

The foreign partners' voting power equity has no relation to their predominance in certain management functions as witnessed in textile joint ventures. For example, it bears no relation to the engineering and supply functions.

Table 6.5 shows the typical form of foreign equity participation in the metalware joint ventures.

Table 6.5
typical form of Foreign Equity Participation
in Metalware Joint Ventures in Hong Kong

type of equity	As % of total equity
Machinery, plant, equipment	55
Technical services	5
Patents, licences, know-how	0
Cash	40
Others	0

SOURCE : Author's primary data.

Foreign participation in the form of technical services is considerably lower than in the textile joint ventures. Table 6.6 shows the percentage distribution of long-term loans to the respondent firms.

Table 6.6

Percentage Distribution of Long-Term Loans
to Metalware Joint Ventures in Hong Kong

Type of loan	As % of total capital
Local banks	40 - 75
Foreign banks	0 - 25
Parent company - local	0 - 20
Parent company - foreign	0 - 40
Foreign government	0
Other international agencies	0

SOURCE : Author's primary data.

6.3 Other types of Local-Japanese and Local-American Joint Ventures

Two wigs firms, one boat-building firm, one printing firm, and one plastics firm constitute the sample of this group of joint ventures in Hong Kong. Although they do not form a representative sample, their responses may still shed some light on the common features of joint ventures in each industry mentioned. Due to limitation of time, only one personal interview is done for this group of joint ventures.

The two wigs firms that responded to the author's survey questionnaire started their operations about 3 or 4 years ago. Engineering and marketing functions in these two firms are mostly performed by the foreign partners. They indicate that the motives for joining forces are : (i) buyer's market is U.S.A., (ii) dexterous and cheap labour in Hong Kong, (iii) raw materials are supplied from U.S.A.. The functions taken over by local partners are production, personnel, finance and administration. One firm has experienced internal conflict over transfer pricing while the other over the criteria for evaluation of the company's overall performance (the latter conflict arises in the 50 - 50 split firm). Both described themselves as assembler of consumer goods and are labour-intensive in their production processes. Resources/facilities complimentary and technical competence are given the highest ranking in the selection of partners. Same line of business, satisfactory past association, and corporate image are relatively unimportant. Both firms find the rate of growth not satisfactory, but they agree that the rate of return on investment is satisfactory. Both agree that their overall performance is better than local companies in the wig industry (100% locally-owned or 100% foreign-owned). For both partners, their joint ventures in Hong Kong are the only joint venture in less developed countries in S. E. Asia region. South Korea is mentioned in both cases as having very favourable environment for investment, especially its low wages.

The response from the boat-building firm describes itself as a labour-intensive, medium-sized manufacturer of consumer goods. During its 10 years of operation, the company has experienced no internal conflicts. The motives for forming a joint venture in Hong Kong are : (i) good craftsmanship of Hong Kong workers at reasonable wages, (ii) capital funds from foreign partner, (iii) marketing functions performed by the foreign partner. Both partners had no experience in the operation of international business in other less developed countries in S. E. Asia before the joint venture in Hong Kong was undertaken. The joint venture in Hong Kong is still the only joint venture for both partners in less developed countries in S. E. Asia region to the present moment. Resources/facilities complimentary is given the highest ranking in the selection of partners, technical competence comes only next. U.S. is the only market for the firm's production. The rate of return on investment and the rate of growth in sales has been satisfactory over the years. Countries that are described as having very favourable environment for investment are Singapore and Malaysia. Taiwan is described as having moderately favourable investment climate while Thailand, Indonesia, Philippines are described as having less favourable environment. In terms of production technology, quality control, and labour productivity, Hong Kong compares most favourably with other less developed countries in the S. E. Asia region. With regard to overall performance, this firm is about the same as other

local firms in the same industry (100% locally-owned or 100% foreign-owned). Although the foreign partner owns majority equity right, there are no foreign employees in the joint venture. Except in marketing and finance, the local partner has predominant authority over the management functions.

The information contained in the response from a local-American joint venture in plastics industry is quite limited. The local partner is predominant in engineering, production, and personnel areas. Local market constitutes some 40% of the firm's total sales. The firm classifies itself as a manufacturer of consumer goods, whose production process is in between labour-intensive and capital-intensive. This 6-years-old firm has experienced internal conflicts over the reinvestment of retained earnings and expansion strategy. Supplies and marketing are shared between local and foreign partner; the same is true with finance, public relations, and administration. Satisfactory past association and same line of business are given high ranking in the selection of partners. This is a 50 - 50 split joint venture.

The printing joint venture which responded to the author's questionnaire survey is a local-Japanese joint venture with eight years of history. It classifies itself as a manufacturing enterprise of printed matter and its production process is in between labour-intensive and capital-intensive, but advanced in technology.

its size is large with reference to this type of industry. Before establishment of the joint venture, only the Japanese partner had experience in international operations in other less developed countries in S. E. Asia. However, it is not the only joint venture at present for both partners. Good local support motivated the Japanese partner in initiating this joint venture. Resources/facilities complimentary is the sole criterion for the selection of partners. The growth rate in sales is described as most satisfactory, whereas the rate of return on investment has not been satisfactory over the years. Local market constitutes a 40% of its total sales, with Australia accounting for another 50%. The Japanese partner takes up predominant responsibilities for all functions of management, except public relations. The local partner owns only 15% of the total equity. The firm claims that its overall performance is better than local companies that are 100% locally-owned in the same industry. Long-term loans are obtained from banks.

CHAPTER 7

CONTRIBUTION AND IMPACT OF LOCAL-AMERICAN AND
LOCAL-JAPANESE MANUFACTURING JOINT VENTURES ON HONG KONG
ECONOMY AND CONCLUDING REMARKS7.1 Contribution and Impact of joint ventures in general

Joint ventures are judged to have the following favourable effects on individual nations and international trade relationships, any one of which can stimulate the other in a so-called "ripple" fashion:¹

- (1) Industrial development,
- (2) Technical advancement,
- (3) Closer relationships and economic interests among countries,
- (4) Reduced nationalistic feelings,
- (5) Freer world trade and fewer artificial trade barriers,
- (6) Increased volume of trade among countries,
- (7) A narrowing of political, social, and economic gap between "have" and "have not" nations,
- (8) Greater understanding among nations, contributing to world peace.

¹ Karen Kraus Bivens and Enid Baird Lovell, Joint Ventures With Foreign Partners, International survey of Business Opinion and Experience : National Industrial Conference Board, Inc., 1966, page 73.

Joint ventures are the most efficient form of extending technical aid to the developing countries by developed countries. Aid is quite obviously a temporary phase, but if private entrepreneurs from foreign countries come to participate, their impact will be more immediate and will influence the pattern of development in a more permanent way.

Joint ventures stimulate local savings and mobilize local capital. Many enterprises will have taken many years to expand and/or to adjust their production systems without the help of foreign partners. Utilization and distribution of natural resources are thereby improved.

7.2 Contribution and Impact of Joint Ventures on Hong Kong Economy

Business opinion and experience from joint ventures in Hong Kong are typically described by the following two comments.¹

"For countries which are industrially in the developing stage, such as Hong Kong, the establishment of joint ventures with leading producers overseas should be especially encouraged as it would provide the means to branch out into fields otherwise inaccessible for lack of technical know-how and expertise. We may expect that the setting-up of joint endeavors would quicken and stimulate the tempo of industrial growth. It would moreover avert the likely drift towards a lopsided concentration of industrial

¹ Karen Kraus Bivens and Enid Baird Lovell, op. cit., page 86.

undertakings in a narrow range of industries of conventional types in the midst of a world of rapid technological progress. In this respect Hong Kong may serve as a clear example of an economy where, in consequence of its excessive dependence on textiles, the need for industrial diversification has become increasingly acute. The best and quickest remedy would be to actively resort to making joint ventures with outside industrialists."

"The long-run effects of joint ventures in Hong Kong will be, we hope, beneficial. There is at present an alarming lack of technical skill within the colony, and American and European industrial know-how has done much in the past, through the medium of joint ventures, to enable local manufacturers to increase efficiency and therefore output, as well as widening the range of goods and services offered. Another result of joint ventures will be the expansion of export markets for Hong Kong, and therefore the overall scope of the economy's trade will be increased."

"If Hong Kong is to remain competitive in international challenge, her industries need a good shot in the arm of technical and commercial expertise to adjust her production to a far more advanced and sophisticated level. Joint ventures in Hong Kong have brought this about."

7.5 Contribution and impact of joint ventures of the Local-American & Local-Japanese type on Hong Kong Economy

The following attempts to evaluate the contributions and impact that local-American and local-Japanese joint ventures have made to Hong Kong economy in terms of capital formation, employment, exports and production, and improvement in skills.

(a) Capital Formation. As shown in Table 4.8, investment in fixed capital assets in local-Japanese ventures amounted to HK\$ 78.2 million, accounting for 37.5% of the total fixed capital assets invested in all joint ventures in Hong Kong as at May, 1970; while that in local-American amounted to HK\$ 52.9 million, accounting for 25.4%.

(b) Employment. Local-Japanese joint ventures employed 4,148 persons while local-American ventures employed 10,000 persons in December 1969. The local-Japanese and local-American joint ventures combined constituted in 1969 a 25.8% of the total number of employment in factories with foreign interest.

(c) Production and Exports. The production and exports in calendar year 1969 was HK\$ 197 million and HK\$ 47 million respectively for local-Japanese ventures, and was HK\$ 239 million and HK\$ 218 million respectively for local-American joint ventures combined constituted a 25.4% and 20.8% in 1969 of the total production and exports respectively of factories with foreign interest.

(d) Improvement in skills. The most important contribution to Hong Kong economy by local-Japanese and local-American joint ventures has been the transfer of new technology, managerial skills and other business techniques to Hong Kong. These joint ventures offer good training programmes for their employees and the foreign partners usually bring along technicians and experts from their parent companies to enable the transfer of skills. The import of such foreign know-how will create new industries or to complement existing knowledge for meeting international challenge. Such unquantifiable external economies are the most important contribution by these joint ventures.

7.4 Summary

Local-Japanese and local-American joint ventures have been playing a valuable role in accelerating the growth of Hong Kong economy. These firms have provided employment for 14,148 persons in December 1969. They have invested HK\$ 131.3 million in fixed capital assets as at May, 1970 or 39.5% of the fixed capital assets investment by foreign investors (see table 4.8). These firms have given Hong Kong advanced technology, managerial skills and business techniques and provided sure sources of materials and markets for Hong Kong.

7.5 Concluding Remarks

It is noticed that foreign equity participation in percentage terms remains almost unchanged over the life of joint ventures. This is usually the cause of internal conflict.

Mr. David Rockefeller, President of Chase Manhattan Bank, at the 13th World CIOB Conference has recommended redeemable stock as a means of stabilising operations by keeping harmony between local and foreign partners. That is to say, when the joint venture becomes payable, local enterprise will redeem, with retained earnings, part of stock owned by foreign partners. Thus, control over management will gradually move to local partners. This will encourage spirit, 'self-help', and stimulate efforts of local managers.

Cheap labour and abundant labour supply are no longer the main motivation for foreigners to invest in Hong Kong. It is hoped that quality control, maturity of related industries, skilled labour, labour productivity will be stressed in the foreign investment campaign. It is advisable to furnish foreigners with Hong Kong statistical data and other indicators in comparison with that of other less developed countries in Asia. This will facilitate foreign investors to make their location analysis.

It is found that the success of local-American and local-Japanese joint ventures depends a lot on the maturity of related industries. Harmony hinges on the mutual understanding between local and foreign partners before and after the establishments. Optimality of the joint ventures regarding over performance is decided by the relative share of responsibilities undertaken by local and foreign partners. If the relative contribution by either party is complimentary and synergising for the type of operation, optimality is guaranteed. Local partners must make sure that foreign partners are not making use of joint ventures as mere means to import machineries and supplies. It is the existence of mutual benefits of long duration that will prompt both partners to co-operate in the form of joint ventures. It is necessary for both parties to foresee the pattern of change of these mutual benefits over the life of joint ventures so that appropriate compensation is agreed upon to maintain the balance of these mutual benefits. Much of the internal conflicts experienced by local-Japanese and local-American joint ventures in Hong Kong can be predicted by the discrepancies of current and original mutual benefits.

Local partners are in general less internationally oriented than foreign partners. The lack of local managerial ability to handle local-foreign ventures can be great hindrance to the success and prosperity of joint ventures. Local partners must be more aggressive to initiate joint ventures and to benefit from the joint operations rather than to wait for such needs and chances to come by. Management guidance centers will be set up to equip present local partners with international business knowledge and techniques, to orient potential local investors to joint ventures, to help joint ventures to solve their problems and internal conflicts after their establishments.

Year of Establishment and Value of Fixed
Capital Assets/Total Investment
as at May 1970

Year	No. of Factories	Total Value of Fixed Capital Assets (valued at original cost) and assessed as at May 1970 (HK\$)	Total Investment - incl. Fixed Capital Assets and Working Capital, etc. - as assessed at May 1970 (HK\$)
Pre 1960	20	45,583,014	207,783,567
1960	5	65,534,227	30,744,149
1961	10	26,128,428	54,960,950
1962	13	49,796,496	100,676,218
1963	19	22,053,390	58,627,714
1964	18	92,633,517	135,796,101
1965	16	48,732,544	87,736,544
1966	13	21,657,772	56,913,350
1967	13	5,555,173	21,341,616
1968	13	10,975,100	31,617,314
1969	15	10,519,340	20,533,040
1970	6	593,015	1,980,000
Total:	161	399,762,826	808,718,563

SOURCE : Commerce and Industry Department, Hong Kong

APPENDIX 2

Type of Foreign Investment

- by country -

(as at 31st May, 1970)

Country of Origin	Fully Foreign-Owned Factories	Joint Venture Factories	Total No. of Factories
United States of America	61	21	82
Japan	15	26	41
United Kingdom	7	8	15
Australasia	5	3	8
Switzerland	5	2	7
Malaysia	-	2	2
Singapore	1	1	2
West Germany	1	3	4
Philippines	2	1	3
Netherlands	4	-	4
Indonesia	-	3	3
Canada	1	-	1
Taiwan	-	1	1
India	-	1	1
Pakistan	1	-	1
Thailand	1	-	1
Total	*102	*74	*176

* The total recorded is greater than the true figure of 161 industrial concerns included in the survey for the reason that some companies possess more than one foreign interest.

SOURCE : Commerce and Industry Department, Hong Kong

APPENDIX 3

Division of Factories - by Industry

(as at 31st May, 1970)

I N D U S T R Y	Type of Industry	Class of Foreign Investment	Fully Foreign Owned Companies	Joint Venture Companies	Total
1	Electronics		36	5	41
2	Textiles (Garments & Made-ups)		13	16	29
3	Textiles (Yarns/Fabrics)		4	8	12
4	Plastic Products (incl. Toys)		4	5	9
5	Metalware Products (incl. Toys)		6	3	9
6	Handicraft Products		4	3	7
7	Food Products & Beverages		2	5	7
8	Watches/Clocks & Accessories		2	4	6
9	Building & Construction Materials		3	3	6
10	Hair Products		2	3	5
11	Precious & Semi-Precious Jewellery		2	2	4
12	Ship Breaking/Repairing & Steel Rolling		-	4	4
13	Printing & Book-binding		2	1	3
14	Aromatic Oils & Balms		3	-	3
15	Electrical Products & Accessories		1	2	3
16	Pleasure Craft & Accessories		1	2	3
17	Optical & Photographic Goods		2	1	3
18	Tobacco Products		1	1	2
19	Miscellaneous Products		3	2	5
	Total		91	70	161

SOURCE : Commerce and Industry Department, Hong Kong

Division of Factories - by Districts

(as at 31st May, 1970)

District	No. of Firms
Aberdeen/Wong Chuk Hang Hong Kong	8
North Point/Chai Wan Hong Kong	19
Kwai Chung/Tsun Wan New Territories	13
Kwun Tong/Lyemun Kowloon	41
San Po Kong/Wong Tai Sin Kowloon	30
Shumshuipo/Laichikok Kowloon	18
Tsimtsatsui/Mongkok Kowloon	7
Kowloon City/Hung Hom Kowloon	11
Others	14
Total	161

SOURCE : Commerce and Industry Department, Hong Kong

SOURCE: Commerce and Industry Department, Hong Kong

APPENDIX 5

Breakdown of Fixed Capital Assets - at Original Cost & Current Assessed Value (including & excluding Hong Kong interest)

Category	Fully Foreign-Owned		Joint Venture				Total	
	at Original Cost	at Current Assessed Value	at Original Cost (incl. Hong Kong interest)	at Current Assessed Value (incl. Hong Kong interest)	at Original Cost (excl. Hong Kong interest)	at Current Assessed Value (excl. Hong Kong interest)	at Original Cost	at Current Assessed Value
Land	\$ 8,285,497	\$ 10,231,166	\$ 40,821,248	\$ 59,528,875	\$ 25,484,262	\$ 39,702,801	\$ 49,106,745	\$ 69,760,04
Building	\$ 26,573,241	\$ 24,021,220	\$ 55,171,564	\$ 59,381,250	\$ 38,048,032	\$ 37,001,055	\$ 81,744,805	\$ 83,402,47
Machinery & Equipment	\$ 142,545,654	\$ 86,778,794	\$ 126,365,692	\$ 89,448,119	\$ 71,544,582	\$ 51,588,751	\$ 268,911,346	\$ 176,226,91
Other	\$ 177,404,392	\$ 121,031,180	\$ 222,358,504	\$ 208,358,244	\$ 135,076,876	\$ 128,292,607	\$ 399,762,896	\$ 329,389,424
TOTAL	(1)	(2)	(3)	(4)	(5)	(6)	(1) + (3)	(2) + (4)

SOURCE : Commerce and Industry Department, Hong Kong

SOURCE: Commerce and Industry Department, Hong Kong

Fixed Capital Investment Range (at Original Cost)	No. of Firms	%
\$ 10,000 & below	2	1
\$ 10,001 - \$ 100,000	21	13
\$ 100,001 - \$ 200,000	19	12
\$ 200,001 - \$ 300,000	15	9
\$ 300,001 - \$ 400,000	6	4
\$ 400,001 - \$ 500,000	9	6
\$ 500,001 - \$ 600,000	10	6
\$ 600,001 - \$ 700,000	6	4
\$ 700,001 - \$ 800,000	4	2
\$ 800,001 - \$ 900,000	1	1
\$ 900,001 - \$1,000,000	6	4
\$1,000,001 - \$1,500,000	14	9
\$1,500,001 - \$2,000,000	11	7
\$2,000,001 - \$2,500,000	2	1
\$2,500,001 - \$3,000,000	6	4
\$3,000,001 - \$3,500,000	4	2
\$3,500,001 - \$4,000,000	2	1
\$4,000,001 - \$4,500,000	2	1
\$4,500,001 - \$5,000,000	2	1
\$5,000,001 - \$5,500,000	3	2
\$5,500,001 - \$6,000,000	-	-
\$6,000,001 - \$6,500,000	1	1
\$6,500,001 - \$7,000,000	2	1
\$7,000,001 & above	13	8
Total	161	100

SOURCE : Commerce and Industry Department, Hong Kong

APPENDIX 7

Investment - by Country of Origin
(by Fully Foreign-owned Companies)
as at May 1970

I N D E X	Class of Investment Origin of Investment	FIXED CAPITAL ASSETS		Total Investment - including Fixed Capital Assets & Working Capital, etc. (HK\$)
		@ Original Cost (HK\$)	@ Current Assessed Value (HK\$)	
1	U.S.A.	108,421,862	72,362,702	271,514,061
2	U.K.	22,233,076	13,676,685	77,104,634
3	Japan	28,130,256	23,432,670	51,539,709
4	Australasia	7,544,486	3,514,924	11,964,739
5	Malaysia and Singapore	4,230,000	4,430,000	7,960,000
6	Switzerland	3,792,521	1,840,010	6,029,877
7	Netherlands	1,396,250	758,125	5,700,500
8	West Germany	800,000	590,000	4,132,000
9	Other territories	788,941	426,064	3,929,246
Total :		177,404,392	121,031,180	439,874,766

SOURCE : Commerce and Industry Department, Hong Kong

APPENDIX 8

Investment - by Country of Origin
 (combining the Hong Kong & foreign interest in Joint Ventures)
 as at May 1970

Origin of Investment	Class of Investment	FIXED CAPITAL ASSETS		Total Investment - including Fixed Capital Assets & Working Capital, etc. (HK\$)
		@ Original Cost (HK\$)	@ Current Assessed Value (HK\$)	
Hong Kong & Japan		24,044,716	78,231,675	130,906,938
Hong Kong & U.K.		62,313,224	57,556,214	109,603,790
Hong Kong & U.S.A.		52,765,393	52,889,646	94,910,074
Hong Kong & Australasia		10,630,000	7,505,000	16,525,000
Hong Kong & Taiwan		8,682,275	7,959,973	10,144,447
Hong Kong & Switzerland		1,113,000	673,000	2,529,000
Hong Kong & West Germany		340,000	132,000	1,428,889
Hong Kong & Malaysia & Singapore		468,000	400,500	1,010,000
Hong Kong & other territories		1,996,866	2,210,234	2,785,657
Total:		222,358,504	208,358,244	368,643,707

SOURCE : Commerce and Industry Department, Hong Kong

Total Investment - incl. Working Capital - by Industry

as at 31st May, 1970

(including the Hong Kong interest)

Class of Industry	Investment Category	Fully Foreign-owned	Foreign-owned subsidiary	Joint Venture Foreign/Local	Total Amount of Investment
Electronics		\$ 47,785,000	\$194,289,339	\$ 4,163,300	\$246,937,639
Ship Breaking/Repairing & Steel Rolling		-	-	\$115,250,000	\$115,250,000
Textiles (Yarns/Fabrics)		\$ 12,850,000	\$ 1,851,544	\$ 76,442,931	\$ 91,143,475
Tobacco Products		-	\$ 68,903,800	\$ 19,498,345	\$ 88,402,145
Textiles (Garments & Made-ups)		\$ 11,909,250	\$ 10,145,000	\$ 42,979,358	\$ 65,033,608
Plastic Products (incl. Toys)		\$ 3,600,000	\$ 3,100,000	\$ 28,330,000	\$ 35,030,000
Building & Construction Materials		-	\$ 10,855,000	\$ 20,593,239	\$ 31,448,239
Printing & Book-binding		\$ 14,437,359	-	\$ 10,920,000	\$ 25,357,359
Food Products & Beverages		-	\$ 550,000	\$ 17,630,041	\$ 18,180,041
Aromatic Oils & Balms		\$ 7,960,000	\$ 7,106,000	-	\$ 15,066,000
Electrical Products & Accessories		-	\$ 5,800,000	\$ 9,180,000	\$ 14,980,000
Metalware Products (incl. Toys)		\$ 3,320,000	\$ 5,847,149	\$ 5,390,000	\$ 14,557,149
Watches/Clocks & Accessories		-	\$ 4,200,000	\$ 7,949,000	\$ 12,149,000
Pleasure Craft & Accessories		\$ 11,012,272	-	\$ 1,092,500	\$ 12,104,772
Precious & Semi-precious Jewellery		\$ 2,153,649	-	\$ 2,360,000	\$ 4,513,649
Handicraft Products		\$ 3,366,419	-	\$ 376,083	\$ 3,742,502
Hair Products		\$ 400,000	\$ 600,000	\$ 2,020,000	\$ 3,020,000
Optical & Photographic Goods		\$ 296,000	\$ 2,400,000	\$ 190,000	\$ 2,886,000
Miscellaneous Products		\$ 936,985	\$ 3,500,000	\$ 4,480,000	\$ 8,916,985
Total Investment		\$120,026,934	\$319,847,832	\$368,843,797	\$808,718,563

SOURCE : Commerce and Industry Department, Hong Kong

APPENDIX 10

Division of Factories - by Employment
(as at 31st May 1970)

Labour Force Employment Range	Type of Investment		Total No.
	Fully Foreign-owned	Joint Venture	
1 - 25	15	13	28
26 - 50	8	8	16
51 - 75	12	8	20
76 - 100	6	6	12
101 - 125	6	4	10
126 - 150	-	2	2
151 - 175	4	5	9
176 - 200	3	6	9
201 - 250	5	1	6
251 - 300	5	-	5
301 - 400	9	6	15
401 - 500	1	1	2
501 - 750	1	5	6
751 - 1,000	3	-	3
1,001 - 1,500	8	1	9
1,501 - 2,000	2	2	4
2,000 & above	3	2	5
Total	91	70	161

SOURCE : Commerce and Industry Department, Hong Kong

- Note: (a) The smallest employment figure in respect of a company is fewer than 20.
- (b) The largest employment figure in respect of a company is in excess of 4,500 persons.
- (c) Labour force includes office administrative employees and technical operative personnel directly engaged in the production processes.

Growth of Employment - Pre 1960 to 31st Dec., 1969

Year	No. of Factories	Growth %	No. of Persons employed	Growth %	Average Employment per factory
Pre 1960	20	-	6,352	-	317 persons
1960	25	25%	11,630	83%	465 persons
1961	35	40%	15,803	36%	451 persons
1962	48	37%	23,270	47%	485 persons
1963	67	40%	26,641	14%	398 persons
1964	85	27%	35,006	31%	412 persons
1965	101	19%	42,990	23%	425 persons
1966	114	13%	49,624	15%	435 persons
1967	127	11%	51,075	3%	402 persons
1968	140	10%	52,636	3%	376 persons
1969	155	11%	54,780	4%	353 persons
May 1970	161	-	54,990	-	-

SOURCE : Commerce and Industry Department, Hong Kong

SOURCE : (Commerce and Industry Department, Hong Kong)

APPENDIX 12

Division of Labour - by Industry
(as at 31st May, 1970)

<div>Category of Employees</div> <div> <div>Class of Industry</div> <div>No. of Firms</div> </div>		MANAGEMENT		TECHNICAL		Total	% Distribution
		Expatriate	Local	Expatriate	Local		
Electronics	41	69	2,870	52	22,101	25,092	45.6%
Plastic Products (incl. Toys)	9	7	518	2	4,644	5,171	9.5%
Textiles (Garments & Made-ups)	29	33	597	1	5,888	6,519	11.9%
Shipbreaking/Repairing & Steel Rolling	4	16	315	50	4,203	4,584	8.3%
Textiles (Yarns/Fabrics)	12	14	114	37	2,325	2,490	4.5%
Metalware Products (incl. Toys)	9	4	105	7	3,697	3,813	6.9%
Watches/Clocks & Accessories	6	4	40	6	1,053	1,103	2.0%
Pleasure Craft & Accessories	3	3	46	-	989	1,038	2.0%
Electrical Products & Accessories	3	4	105	2	920	1,031	2.0%
Tobacco Products	2	8	220	6	449	683	1.2%
Hair Products	5	1	41	-	636	678	1.2%
Printing & Book-binding	3	12	98	5	562	677	1.2%
Food Products & Beverages	7	7	360	4	255	626	1.1%
Building & Construction Materials	6	9	133	7	354	503	1.0%
Handicraft Products	7	4	52	11	250	317	0.6%
Optical & Photographic Goods	3	2	26	8	192	228	0.4%
Precious & Semi-Precious Jewellery	4	9	43	1	83	136	0.2%
Aromatic Oils & Balms	3	3	29	2	59	93	0.2%
Miscellaneous Products	2	5	25	-	178	208	0.4%
Total	161	214	5,737	201	45,838	46,990	100%

APPENDIX 13

Production and Export for Period 1st January - 31st December, 1969

I N D E X	Class of Industry	No. of Firms	Total Production Value	Production Value	
				Retained	Exported
1	Electronics	38	\$ 856,379,474	\$ 83,566,824	\$ 772,812,650
2	Textiles (Garments and Made-ups)	27	\$ 152,132,196	\$ 7,603,772	\$ 144,528,424
3	Textiles (Yarns/Fabrics)	12	\$ 135,680,918	\$ 132,715,118	\$ 2,965,800
4	Plastic Products (incl. toys)	9	\$ 112,287,992	\$ 439,000	\$ 111,848,992
5	Shipbreaking/Repairing & Steel Rolling	4	\$ 111,405,618	\$ 52,592,709	\$ 58,812,909
6	Tobacco Products	2	\$ 62,271,799	\$ 55,068,209	\$ 7,203,590
7	Metalware Products (incl. Toys)	9	\$ 38,929,463	\$ 4,875,227	\$ 34,054,236
8	Food Products and Beverages	7	\$ 34,761,613	\$ 31,759,568	\$ 2,045
9	Pleasure Craft and Accessories	3	\$ 31,610,000	\$ 450,000	\$ 31,160,000
10	Building & Construction Materials	6	\$ 30,999,681	\$ 25,909,822	\$ 5,089,859
11	Printing & Book-binding	3	\$ 28,000,000	\$ 14,880,000	\$ 13,120,000
12	Watches/Clocks & Accessories	6	\$ 23,940,000	\$ 8,828,000	\$ 15,112,000
13	Electrical Products & Accessories	3	\$ 21,588,000	\$ 14,352,800	\$ 7,235,200
14	Aromatic Oils & Balms	3	\$ 18,840,000	\$ 1,223,200	\$ 17,616,800
15	Optical & Photographic Goods	3	\$ 17,544,700	\$ 2,312,205	\$ 15,232,495
16	Precious & Semi-Precious Jewellery	4	\$ 5,777,000	\$ 813,100	\$ 4,963,900
17	Handicraft Products	7	\$ 5,138,024	\$ 1,160,678	\$ 3,977,346
18	Hair Products	4	\$ 3,753,578	\$ 4,500	\$ 3,749,078
19	Miscellaneous Products	5	\$ 30,457,144	\$ 9,478,000	\$ 20,979,144
Total :		155	\$1,718,497,200	\$448,032,732	\$1,270,464,468

SOURCE : Commerce and Industry Department, Hong Kong

APPENDIX 14

Foreign Investment - Summary Sheet

Class of Industry/Products	Establishments (as at 31.5.70)		Total Investment (as assessed at 31.5.70)		Employment (as at 31.5.70)		Exports for 1969	
	Total No.	%	Total Amount (HK\$)	%	Total No.	%	Total Value (HK\$)	%
Electronics	41	25	246,937,639	30.5	25,092	45.6	772,812,650	60.8
Ship Breaking/Repairing & Steel Rolling	4	3	115,250,000	14.2	4,584	8.3	58,812,909	4.6
Textiles (Yarns & Fabrics)	12	7	91,143,475	11.3	2,490	4.5	2,965,800	0.2
Tobacco Products	2	1	88,402,145	10.9	683	1.2	7,203,590	0.5
Textiles (Garments & Made-ups)	29	18	65,033,608	8.1	6,519	11.9	144,528,424	11.4
Plastic Products (incl. Toys)	9	6	35,030,000	4.3	5,171	9.4	111,848,992	8.8
Building & Construction Materials	6	4	31,448,239	3.9	503	1.0	5,089,859	0.3
Printing & Book-binding	3	2	25,357,359	3.1	677	1.2	17,120,000	1.0
Food Products & Beverages	7	4	18,180,041	2.2	626	1.0	2,045	-
Aromatic Oils & Balms	3	2	15,066,000	1.8	93	0.1	17,616,800	1.4
Electrical Products & Accessories	3	2	14,980,000	1.8	1,031	1.9	7,235,200	0.5
Metalware Products (incl. Toys)	9	6	14,557,149	1.8	3,813	6.9	34,054,236	2.7
Watches/Clocks & Accessories	6	4	12,149,000	1.5	1,103	2.0	15,112,000	1.2
Pleasure Craft & Accessories	3	2	12,104,772	1.5	1,038	2.0	31,160,000	2.4
Precious & Semi-Precious Jewellery	4	3	4,513,649	0.5	136	0.2	4,963,900	0.4
Handicraft Products	7	4	3,742,502	0.4	317	0.6	3,977,346	0.3
Hair Products	5	3	3,020,000	0.4	678	1.2	3,749,078	0.3
Optical & Photographic Products	3	2	2,886,000	0.3	228	0.4	15,232,495	1.2
Miscellaneous Products	5	3	8,916,985	1.1	208	0.4	20,979,144	1.6
Total:	161		808,718,563		54,990		1,270,464,468	

SOURCE : Commerce and Industry Department, Hong Kong.

APPENDIX 15

CALCULATION OF RELATIVE WEIGHTS IN SELECTION OF PARTNERS

BY LOCAL-JAPANESE & LOCAL-AMERICAN JOINT VENTURES

IN HONG KONG

A list of possible criteria for selection of partnership in joint ventures were included in the questionnaire. Respondents were requested to choose and assign relative weights (from a range of 0 - 7 points) to three criteria which they consider important for their selection of partners.

The cumulative relative weight for a specific criterion is then divided by the total number of respondents to arrive at an average relative weight for that criterion. The resulting average relative weights for all the various criteria are then finally entered into table 5.6.

APPENDIX 16

CALCULATION OF RELATIVE WEIGHTS TO PORTRAY DIVISION OF RESPONSIBILITIES BETWEEN FOREIGN AND LOCAL PARTNERS AND EMPLOYEES IN LOCAL-JAPANESE AND LOCAL-AMERICAN JOINT VENTURES IN HONG KONG

A list of different management functions were included in the questionnaire. Respondents were requested to indicate the responsibilities shouldered both by the foreign and local partners to each of the mentioned management functions. Three scales "predominant", "moderate" and "none" with respective relative weights of "5", "3" and "0" were provided.

The relative weight for a specific management function from all respondents is added to obtain the cumulative value. These resulting cumulative relative weights for all the various management functions shouldered by both the foreign and local partners are then finally entered into Table 5.7.

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金屬業與紡織業的合資經營方法，彼此迥然不同。就金屬業而論，雙方都沒有合作經驗，港商要求外商資助其擴充及發展，並借重西方管理方法；外商則利用港商去瞭解顧客需求及競爭情況，因為產品主要是內銷。外商認為金屬工業的最佳投資地為星加坡，其次為香港，原因是這兩個地方可以供應技工，有消費能力。根據估計，約有百分之九十的金屬製成品都在本港銷售。

香港的工業正在發展階段中，極需借重外商的技能及經驗，以擺脫傳統方式及小規模的工業生產，並開拓國際市場，此對本港經濟前途實大有裨益。

以紡織業為例，港日合資經營的公司在一平內增加五間，港美合資經營的公司則增加六間。根據統計，合資經營的事業，其收益較一般獨資經營者為多。外商多負責解決原料供應及市場開拓的問題，港商則全力注重提高生產效率。

此類紡織廠都是以勞動力為主的中型企業，且在工藝方面已有相當進步。它們多向本地銀行借貸，很少向外商長期貸款。

在香港的紡織廠中，有些是外商擁有較多的股權。港商在擁有少數股權的情形下，常發生內部意見衝突。

的公司中，外商投資三十七萬元於土地，五十萬元於建築物，一百萬元於機器。但在獨資經營的外國公司中，投資於土地者僅九萬元，投資建築物者僅二十八萬元，因而他們可以隨時把資本移往別處。

在與港商合作之前，這些外商大部份已有合資經營的經驗。他們曾在一些發展中的國家從事合資經營，港商則甚少此種國際傾向。

一般來說，此類公司都不生產原料。港美合資事業着重消費品，港口合資事業則着重半完成的工業品。公司職員不超過一百人。

政及公共關係等事務。日商多自行負責工程事務，美商則多自行解決市場問題，至原料供應則由雙方共同負責。

但在股權方面，外商卻希望佔多數股份。根據統計數字，港美合資經營的工廠計有百分之四十是由美方擁有多數股權，另百分之四十則雙方握有同等股權。港日合資經營的工廠有二分之一是由日商擁有多數股權，四分之一是彼此均享。

與獨資經營的外國公司比較，合資經營的公司通常在土地、建築物及機器供應方面，外商佔有多數股權，而在這三方面的投資額亦較大。平均而論，在每一間合資經營

據工商處資料，此類合資經營的公司共有七十四間，其中日本與美國分別佔二十八間及二十一間。合資事業有三分之一為紡織業，其餘為電子業、塑膠業、金屬業等等。外商多喜歡與港商合資經營紡織廠及塑膠廠，至於電子廠，他們有足夠條件來自力經營。

外商選擇合夥人之原則大致相同，先着重技術及競爭因素，其次是資源及設備，至於合夥人的聲譽，則並不十分重視。

就合作原則言，美商要求港商負責人事、生產、行政及公共關係等事項，日商則要求港商處理市場、人事、行

港美及港日合資經營事業之研究

香港雖然擁有若干工業，但由於缺乏工業原料及經驗不足，近年來的趨勢是港商紛紛與外商合資經營，一方面可以確保原料的供應源源不絕，另一方面也可以藉此機會開拓國際市場。

合資經營對雙方均有利益。外商可以享有英國的特惠稅率，又可以解決工人管理及行政上的瑣碎問題。而外商之以香港為投資的目標，乃基於以下幾個因素：勞動力刻苦，地理環境優越，船運銀行制度健全，以及極少受到政府管制。



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